

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**  
**The HELP II Program**  
**EXECUTIVE SUMMARY**

<b>Applicant:</b>	Selma Community Hospital, Inc. ("SCH") 1141 Rose Ave. Selma, CA 93662 Fresno County	<b>Amount Requested:</b>	\$392,630	
		<b>Requested Loan Term:</b>	5 years	
		<b>Date Requested:</b>	April 25, 2002	
		<b>Resolution Number:</b>	HII-119	
<b>Project Site:</b>	Selma, CA			
<b>Facility Type:</b>	Acute Care Hospital			
<b>Affiliation:</b>	Selma Community Hospital, Inc. is affiliated with Adventist Health, but is not part of the Adventist Health Obligated Group			
<b>Use of Loan Proceeds:</b> Loan proceeds will be used by SCHI to purchase several pieces of medical equipment that will enable its medical providers to provide new and enhanced services.				
<b>Type of Issue:</b>	HELP II Loan.			
<b>Prior HELP II Borrower:</b>	No			
<b>Financial Overview:</b> Prior to the acquisition of SCHI by Adventist Health in August 1999, the hospital's financials reflected weak operations. Since the acquisition, the balance sheet and income statement continue to reflect negative operations but show signs of improvement. Adventist Health will guarantee this new debt due to SCHI's negative financial operations over the review period.				
<b>Sources of Revenue (\$000's):</b> (FYE 12-31-00)		<u>Amount</u>	<u>Percent</u>	
	Medicare	\$5,542	33.3%	
	Managed Care	5,358	32.3%	
	Medi-Cal	4,554	27.5%	
	Private Pay/Other	<u>1,145</u>	<u>6.9%</u>	
	Total Support and Revenue	<u>\$16,599</u>	<u>100%</u>	
<b><u>Estimated Sources of Funds:</u></b>		<b><u>Estimated Uses of Funds:</u></b>		
	HELP II Loan	\$392,630	Equipment	\$413,294
	Borrower Funds	25,572	Financing Costs	4,908
		<u>          </u>		<u>          </u>
	Total Sources	<u>\$418,202</u>	Total Uses	<u>\$418,202</u>
<b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.				
<b>Staff Recommendation:</b> Staff recommends the Authority approve a resolution for a HELP II loan for Selma Community Hospital, Inc. in an amount not to exceed \$392,630, for a term of five years, subject to staff verification of borrower funds, Adventist Health guaranteeing the loan and the standard HELP II loan provisions.				

**STAFF SUMMARY AND RECOMMENDATION**

**Selma Community Hospital, Inc. ("SCHH")**

April 25, 2002

Resolution Number: HII-119

- I. PURPOSE OF FINANCING:** Loan proceeds will be used by SCHH to purchase several pieces of medical equipment that will enable its medical providers to provide new and enhanced services.

***Equipment Purchases* .....\$413,294**

*CT Scanner*.....\$199,174

SCHH will replace its existing CT Scanner with a refurbished Picker PQ 5000 Spiral CT Scanner. The current CT Scanner is 12 years old and is expected to be inoperable within the next six months. The new CT Scanner will enable the medical providers at SCHH to produce faster scans and to offer advanced scanning services not currently available to patients.

*Ultrasound Machine*.....\$107,875

The addition of a reconditioned ASPEN Ultrasound System will enable SCHH medical providers to offer services not currently available to patients. The new system will provide imaging services with an emphasis on vascular and cardiology modalities.

*Phaco Machine*.....\$51,570

SCHH will purchase a demonstration model of the Legacy Series 20000 Phaco Cataract Surgery Machine. Currently, there is no available service in the community for cataract eye surgery.

*Agfa Dry Laser Camera*.....\$54,675

SCHH will purchase two Stationary DRYSTAR 3000 Dicom/Digital point-to-point cameras for the Radiology Department. These two cameras will support Ultrasound Computed Tomography, Digital Fluoroscopy and may support computed radiography in the future. This piece of equipment will improve processing speeds and increase the quality of prints that the radiologists review.

***Financing Costs* ..... 4,908**

*Authority Closing Fee*.....\$4,908

***Total*.....\$418,202**

**Financing structure:** The SCHI financing will be structured as follows:

- Five-year loan term.
- Sixty equal monthly payments of approximately \$7,100 (yearly payments of approximately \$85,200).
- Total interest payments of approximately \$30,700.
- Anticipated loan to value equals 95%.
- Corporate gross revenue pledge.
- First lien on financed equipment.
- Loan payments are guaranteed by Adventist Health.

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## II. FINANCIAL STATEMENTS AND ANALYSIS:

**Selma Community Hospital, Inc.**  
**Statement of Unrestricted Revenue and Expenses**  
**In Thousands (\$000's)**

	<u>11 Months</u> <u>Nov 30</u>	<u>12 Months</u> <u>Dec 31</u>	<u>4 Months</u> <u>Dec 31</u>	<u>2 Months</u> <u>Aug 31</u>	<u>12 Months</u> <u>June 30</u>	<u>12 Months</u> <u>June 30</u>
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1999</u>	<u>1999</u>	<u>1998</u>
	(Unaudited)			(Unaudited)		
<b>Revenues</b>						
Net patient revenue	\$ 16,177	\$ 14,140	\$ 5,056	\$ 2,039	\$ 11,274	\$ 13,104
Other revenue	422	250	47	39	274	295
Total revenues	<u>16,599</u>	<u>14,390</u>	<u>5,103</u>	<u>2,078</u>	<u>11,548</u>	<u>13,399</u>
<b>Expenses</b>						
Employee compensation	8,595	7,617	2,391	1,312	6,822	6,047
Professional fees	1,248	2,113	622	448	2,296	2,288
Supplies	2,230	2,217	804	354	1,348	994
Purchase services and other	3,205	3,173	1,278	483	3,921	3,097
Interest	590	654	185	72	358	312
Depreciation	493	751	337	139	800	773
Provision for bad debts	1,495	735	803	386	1,052	1,624
Total expenses	<u>17,856</u>	<u>17,260</u>	<u>6,420</u>	<u>3,194</u>	<u>16,597</u>	<u>15,135</u>
<b>Increase/(Decrease) in</b>						
Unrestricted net assets	<u>(1,257)</u>	<u>(2,870)</u>	<u>(1,317)</u>	<u>(1,116)</u>	<u>(5,049)</u>	<u>(1,736)</u>
Unrestr. net assets, beginning of year	<u>(4,187)</u>	<u>(1,317)</u>	-	-	<u>1,521</u>	<u>3,257</u>
Unrestr. net assets, end of year	<u>\$ (5,444)</u>	<u>\$ (4,187)</u>	<u>\$ (1,317)</u>	<u>\$ (1,116)</u>	<u>\$ (3,528)</u>	<u>\$ 1,521</u>

\*Selma Community Hospital was purchased in August 1999. First audit period after purchase was for the four months ended 12-31-99. Financial information prior to this date represents financial results as a district hospital not associated with Adventist Health.

**Selma Community Hospital, Inc.**  
**Balance Sheet**  
**In Thousands (\$000's)**

	<b>11 Months Nov 30 2001 (Unaudited)</b>	<b>12 Months Dec 31 2000</b>	<b>4 Months Dec 31 1999*</b>	<b>2 Months August 31 1999 (Unaudited)</b>	<b>12 Months June 30 1999</b>	<b>12 Months June 30 1998</b>
<b>Assets</b>						
Cash and cash equivalents	\$ (3,264)	\$ 396	\$ 79	\$ (3,210)	\$ 143	\$ 292
Patient accts. receivables, net	2,589	2,297	2,172	1,660	1,813	3,280
Inventories	226	227	247	247	247	230
Other assets	354	454	142	(831)	287	259
Total current assets	(95)	3,374	2,640	(2,134)	2,490	4,061
Other long term assets	1,467	1,492	1,585	1,999	457	468
Property and equipment, net	5,829	6,027	6,467	6,646	3,248	3,631
Construction in progress	15	88	2	-	-	-
Notes receivable	-	-	-	-	136	148
Total Assets	<u>\$ 7,216</u>	<u>\$ 10,981</u>	<u>\$ 10,694</u>	<u>\$ 6,511</u>	<u>\$ 6,331</u>	<u>\$ 8,308</u>
<b>Liabilities</b>						
Accounts payable	\$ 1,114	\$ 2,454	\$ 2,776	\$ 1,153	\$ 4,323	\$ 2,031
Compensation and related payables	517	330	512	335	348	266
Lia. to 3rd parties for contract settlements	387	96	756	-	893	255
Short-term financing	1,800	5,550	7,280	6	-	-
Current portion long term debt	-	16	37	(1)	147	110
Other	63	101	-	-	-	-
Total current liabilities	3,881	8,547	11,361	1,493	5,711	2,662
Long-term debt	8,779	6,621	648	5,016	4,136	4,125
Total Liabilities	12,660	15,168	12,009	6,509	9,847	6,787
<b>Net Assets</b>						
Unrestricted net assets	(5,444)	(4,187)	(1,317)	-	(3,516)	1,521
Temporarily restr. net assets	-	-	2	2	-	-
Total Liabilities & Net Assets	<u>\$ 7,216</u>	<u>\$ 10,981</u>	<u>\$ 10,694</u>	<u>\$ 6,511</u>	<u>\$ 6,331</u>	<u>\$ 8,308</u>

\*Selma Community Hospital was purchased in August 1999. First audit period after purchase was for the four months ended 12-31-99. Financial information prior to this date represents financial results as a district hospital not associated with Adventist Health.

	Proforma (1) FYE Dec 2000					
Debt Service Coverage (x)	-1.65	-1.83	-2.39	4.13	-8.31	-1.56
Debt/Unrestricted Net Assets (x)	-1.68	-1.59	-0.52	N/A	1.21	2.78
Margin (%)		-19.94	-25.81	-53.71	-43.72	-12.96
Current Ratio (x)		0.39	0.23	-1.43	0.44	1.53

## **Financial Discussion:**

**Prior to the acquisition of SCHI by Adventist Health in August 1999, the hospital's financials reflected weak operations.**

When the hospital was acquired by Adventist Health, accounts payable had increased 113% and accounts receivable had decreased 45% from the prior twelve months. The debt service coverage at June 30, 1999 was negative 8.31x while the margin was reported at negative 43.72%. Revenues during the fiscal period end 1999 decreased approximately 14% from the prior twelve months and expenses from 1998 to 1999 increased approximately 10%. A combination of these factors resulted in a decrease to unrestricted net assets of approximately \$5 million leaving a total unrestricted net asset balance of approximately negative \$3.5 million.

**Since the acquisition, the balance sheet and income statement continue to reflect negative operations but show signs of improvement.**

The short-term debt spiked at December 1999 as long-term debt was reclassified as short-term debt in anticipation of restructuring debt with the proceeds from an Adventist Health bond refinancing earmarked for SCHI's recapitalization. The short-term debt balance was carried until 2001 when the bond refinancing was completed. Currently, a \$1.8 million line of credit remains as the only short-term debt classification. The interim negative cash balance is tied to a line of credit with Adventist Health. At the end of each year, any balance from this line is classified as an account payable. Total assets and liabilities shown on the interim period balance sheet are at levels consistent with the prior fiscal year.

The income statement, since the acquisition, reflects some strengthening which management attributes to reimbursement rate contract negotiations and patient volume increases. Total revenues during the interim period, for example, are on pace to improve 25% over FYE 2000 revenues which can be partially attributed to managed care contract increases that have averaged 11% per year for the past two years. In addition, Medi-Cal payments have also increased. On July 1, 2001, SCHI switched to cost reimbursement from per diem payments which lead to an increase in excess of 80% from the reimbursement level received prior to the year 2000. The hospital will also begin receiving Medi-Cal disproportionate share payments starting on July 1, 2001, which will add \$380,000 annually to revenues. The new Medi-Cal rural health clinic prospective payment system will also boost revenues by more than \$275,000 annually.

Increasing patient volume has and will likely continue to increase revenues. SCHI hired a bilingual OB/GYN physician who contributed to a 49% increase in hospital births from 2000 to 2001. In addition, one internal medicine and two family practice physicians have been recruited for 2002. Management believes the addition of these three new physicians will also boost patient volume and subsequent patient revenues.

Although management has focused primarily on increasing revenues, growth in total expenses has slowed from prior periods which, combined with increasing revenue, results in a smaller negative impact to the unrestricted net asset balance compared to prior periods. Interim period expenses, for example, have slowed to 12% of the growth shown from the prior twelve-month period. The interim period decrease to the unrestricted net asset balance is 50% less than the decrease reported for the twelve months ended December 31, 2000.

**Adventist Health will guarantee this new debt due to SCHI's negative financial operations over the review period.**

Based on interim results, SCHI's projected debt service coverage ratio is negative 1.65x, which does not meet the Authority's minimum requirement of 1.25x. Due to SCHI's continued negative financial operations, the guarantee of Adventist Health adds significant strength to this loan request. Exhibit A details the financial operations for Adventist Health. The projected debt service coverage ratio and debt to unrestricted net asset ratios are 3.11 and 0.64, respectively. If Adventist Health became liable to repay this HELP II debt, these ratios would remain unchanged.

### III. UTILIZATION STATISTICS:

#### Selma Community Hospital, Inc.

##### Patient Encounters

Type of Service (Patient Days)	Calendar Year End December 31		
	2001	2000	1999
Medicare	5,048	3,549	4,135
Medi-Cal	2,395	1,630	1,703
Commercial	70	100	115
HMO/PPO	1,866	2,300	1,917
Private Pay	335	542	745
Workers Comp	9	57	64
<b>Totals</b>	<b>9,723</b>	<b>8,178</b>	<b>8,679</b>

#### Selma Community Hospital, Inc.

##### Clients Served

Type of Service	Calendar Year End December 31		
	2001	2000	1999
Discharges - Acute Care	1,994	1,701	1,846
Emergency - Visits	17,325	16,562	16,076
Clinic - Visits	22,430	21,745	21,907
Job Care - Visits	6,965	6,532	4,722
Acute Care - Patient Days	4,733	4,338	4,929
Skilled Nursing - Patient Days	3,847	3,053	2,930
Deliveries - Births	739	496	508
Dietary - Total Meals	48,449	40,641	48,326

**IV. ORGANIZATION:**

**Background:** Selma District Hospital, located in the rural town approximately 20 miles south of Fresno on Highway 99, first began operations in the early 1960's as an acute general hospital serving the needs of the local community. To better serve the needs of its patients, the hospital added a laboratory, emergency department, and surgery department in 1986 and a 14-bed Distinct Part Skilled Nursing Unit in 1991.

In August 1999, following an almost unanimous vote by the citizens of Selma, Adventist Health purchased Selma District Hospital and began operations as Selma Community Hospital, Inc. The hospital currently has 33 medical/surgical beds, 10 obstetrical beds and a 14 bed skilled nursing unit. The 57-bed capacity supports an emergency department, surgical suite, labor and delivery, laboratory and radiology departments. The hospital serves both inpatient and outpatient needs for the communities it serves.

**Licenses:** SCHI is licensed by the State Department of Health Services to operate as an acute care hospital with 57 beds. SCHI participates in Medicare, Medi-Cal and managed care programs.

**Competition:** Within the overall service area, 34.3% of hospital discharges were from SCHI. The Distinct Part-Skilled Nursing Facility has no direct competition in the area.

**Competition**

Health Facility	Year Ended 2000		Estimated Distance Away (Miles)
	Beds/Occupancy	Market Share (%)	
Sierra Kings District Hospital, Dinuba, CA	39	12.2	12
Kingsburg Medical Hospital	30	2.4	6
Sanger General Hospital	48	5.7	15
Alta District Hospital, Dinuba, CA	39	(Closed 10/2001)	17

**V. OUTSTANDING DEBT:**

Description	Original Amount	Amount Outstanding As of 11/30/01	Estimated Amount Outstanding After Proposed Financing
		(Unaudited)	
Existing:			
Wells Fargo Bank	\$ 4,230,799	\$ 4,230,799	\$ 4,230,799
Adventist Health 1991 CHFFA Bond	4,545,000	4,477,812	4,477,812
GE Healthcare	180,622	70,298	70,298
Proposed:			
HELP II Loan	\$ 392,630		392,630
		<u>\$ 8,778,909</u> (1)	<u>\$ 9,171,539</u>

(1) Includes current portion of long term debt.

**VI. SECTION 15438.5 OF THE ACT:**

Savings resulting from this proposed financing will contribute to SCHI's long-term viability and allow for a higher level of care. The estimated interest savings over the life of the loan is estimated at \$54,000 in comparison to a 8% rate commercial loan.

## **VII. SECTION 15459.1 (b) OF THE ACT**

SCHI has submitted its physicians' list dated April 10, 2002 as required by Section 15459.1(b) of the Act.

## **VIII. COMPLIANCE WITH SEISMIC REGULATIONS:**

SB 1953 (Chapter 740, 1994) requires that all acute care hospitals in California meet specific seismic safety standards by 2008 and 2030. All general acute care hospital owners must have performed seismic evaluations on each hospital building by January 1, 2001, and submit a plan for achieving compliance if the buildings do not meet SB 1953 seismic standards to the Office of Statewide Health Planning and Development (OSHPD) for review by January 1, 2002.

To date, SCHI has submitted a Seismic Evaluation and Compliance Plan to the State of California in accordance with the January 1, 2001 deadline and is year 2008 compliant. Management of the hospital is currently evaluating financing options and costs associated with 2030 seismic compliance upgrades for its one story facility.

## **IX. LEGAL REVIEW:**

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

## **X. STAFF RECOMMENDATION**

Staff recommends the Authority approve a resolution for a HELP II loan for Selma Community Hospital, Inc. in an amount not to exceed \$392,630, for a term of five years, subject to staff verification of borrower funds, Adventist Health guaranteeing the loan and the standard HELP II loan provisions.

## Exhibit A

### ADVENTIST HEALTH SYSTEM/WEST Statement of Unrestricted Revenue and Expenses (\$000's)

	12 month			
	Period Ending			
	Dec 31	For the year ended December 31		
	2001	2000	1999	1998
	(unaudited)			
<b>Unrestricted revenues, gains and other support:</b>				
Net patient service revenue	\$ 1,120,155	\$ 1,022,067	\$ 970,998	\$ 921,748
Premium revenues *	77,235	130,682	132,758	165,679
Other Revenue	85,655	73,773	68,614	65,589
Investment income	-	33,725	35,491	39,552
Net assets released from restrictions for operations	3,987	4,362	2,613	3,158
Total unrestricted revenues, gains and support	1,287,032	1,264,609	1,210,474	1,195,726
<b>Expenses:</b>				
Employee compensation	655,793	615,913	580,587	564,551
Purchased services and other	194,938	234,092	244,894	258,271
Supplies	179,427	163,747	159,544	151,351
Professional fees	90,164	91,717	89,105	91,280
Depreciation	64,640	62,131	59,531	56,736
Provision for bad debts	53,185	52,566	42,251	33,538
Interest	16,476	19,381	18,901	19,548
Total expenses	1,254,623	1,239,547	1,194,813	1,175,275
Excess of revenues over expenses	<b>32,409</b>	<b>25,062</b>	<b>15,661</b>	<b>20,451</b>
Transfers to related parties	905	-	(1,069)	(1,486)
Net unrealized gains (losses)	7,580	(1,655)	(12,685)	3,183
Discontinued operations	(24,882)			
Net assets released from restrictions for capital	2,080	4,729	2,221	2,338
Other	2,808	2,134	117	(1,476)
Other changes in unrestricted net assets	<b>(11,509)</b>	<b>5,208</b>	<b>(11,416)</b>	<b>2,559</b>
Increase in unrestricted net assets	<b>20,900</b>	<b>30,270</b>	<b>4,245</b>	<b>23,010</b>
Unrestricted net assets, beginning of year	661,055	630,785	626,540	603,530
Unrestricted net assets, end of year	<b>\$ 681,955</b>	<b>\$ 661,055</b>	<b>\$ 630,785</b>	<b>\$ 626,540</b>

\* Premium Revenues are monthly capitation payments from various HMO's based on the number of each HMO's

## ADVENTIST HEALTH SYSTEM/WEST

## Balance Sheet (\$000's)

	As of	As of December 31		
	Dec 31, 2001 (Unaudited)	2000	1999	1998
<b>ASSETS</b>				
Current assets	\$ 414,190	\$ 407,874	\$ 375,445	\$ 380,946
Long-term investments	61,513	79,370	78,466	87,050
Investments whose use is limited *	353,560	328,878	347,805	345,909
Property and equipment	59,360	525,449	528,233	513,294
Other assets	505,090	31,874	36,128	31,431
Total assets	<u>\$ 1,393,713</u>	<u>\$ 1,373,445</u>	<u>\$ 1,366,077</u>	<u>\$ 1,358,630</u>
<b>LIABILITIES</b>				
Current liabilities	203,033	189,907	208,992	200,277
Long-term debt	326,168	336,804	347,506	358,643
Other non-current liabilities	154,055	157,135	146,647	144,124
Total liabilities	683,256	683,846	703,145	703,044
Unrestricted net assets	681,955	661,055	630,785	626,540
Temporarily restricted net assets	26,507	28,544	32,147	29,046
Permanently restricted net assets	1,995	-	-	-
Total Net Assets	<u>710,457</u>	<u>689,599</u>	<u>662,932</u>	<u>655,586</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,393,713</u>	<u>\$ 1,373,445</u>	<u>\$ 1,366,077</u>	<u>\$ 1,358,630</u>

\* Certain AHS/W assets are limited as to use through board resolution, provisions of contractual arrangements with third parties, terms of indentures, self-insurance trust arrangements or donors who restrict the use of specific assets.

**Financial Ratios:**

	Proforma <sup>(a)</sup>			
Debt Service Coverage (x)	3.11	3.24	2.75	3.12
Debt-to-unrestricted net assets (x)	0.64	0.53	0.55	0.57
Margin (%)		2.38%	0.35%	1.92%
Current Ratio (x)		2.15	1.80	1.90